

Message Text

LIMITED OFFICIAL USE

PAGE 01 LONDON 06688 01 OF 02 251701Z
ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 SP-02 USIA-06 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 L-03
H-01 PA-01 PRS-01 CIAE-00 COME-00 FRB-03 INR-07
NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 DODE-00
PM-04 /103 W

-----251739Z 110768 /53

R 251736Z APR 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 3024
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY THE HAGUE
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
USMISSION EC BRUSSELS
USMISSION NATO BRUSSELS
USMISSION OECD PARIS
USNMR SHAPE
USMISSION GENEVA
AMCONSUL BELFAST
AMCONSUL EDINBURGH

LIMITED OFFICIAL USE SECTION 01 OF 02 LONDON 06688

PASS LABOR, TREASURY. FRB

E.O. 11652: N/A
TAGS: ELAB, UK. PINT
SUBJECT: CALLAGHAN AND HEALEY INTO THE BREACH

REF: LONDON 6466
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LONDON 06688 01 OF 02 251701Z

BEGIN SUMMARY. IF THE GOVERNMENT DOES NOT GET A WORK-
ABLE THIRD ROUND PAY AGREEMENT WITH THE TRADE UNIONS,
IT WON'T BE BECAUSE OF LACK OF EFFORT. DURING THE PAST
FEW DAYS, THE PRIME MINISTER JAMES CALLAGHAN AND THE
CHANCELLOR OF THE EXCHEQUER DENIS HEALEY HAVE DELIVERED
IMPORTANT SPEECHES TO TRADE UNION CONFERENCES TRYING TO

GAIN SUPPORT FOR THE NEXT PHASE. THE PRIME MINISTER AND THE CHANCELLOR OF THE EXCHEQUER MADE IT CLEAR THAT THE GOVERNMENT WANTS A CLEAR-CUT AGREEMENT. WHILE ACKNOWLEDGING THE NEED FOR A MORE FLEXIBLE ARRANGEMENT THAN IN PREVIOUS YEARS. THE CHANCELLOR SPELLED OUT SOMEWHAT MORE CAREFULLY THAN PREVIOUSLY SOME OF THE GOVERNMENT'S OBJECTIVES, INCLUDING THAT OF KEEPING AVERAGE EARNINGS TO A FIGURE BELOW 10 PERCENT FOR NEXT YEAR IF PRICE INFLATION COULD BE LIMITED TO THE SAME AMOUNT. THE GENERAL SECRETARY OF THE TUC, LEN MURRAY, DURING A WEEKEND TELEVISION INTERVIEW, APOPEARED TO FAVOR A MUCH LOOSER UNDERSTANDING ON PAY THAN THE GOVERNMENT IS PREPARED TO ACCEPT, BUT HE TOO RECOGNIZES THE DISASTROUS EFFECT A RETURN TO THE PRE-1975 WAGES FREE-FOR-ALL WOULD HAVE ON THE ECONOMY. END SUMMARY.

1. PRIME MINISTER CALLAGHAN SPOKE ON FRIDAY TO THE ANNUAL CONFERENCE OF THE WELSH TUC. HE EMPHASIZED THAT THE GOVERNMENT NEEDS TO CONCLUDE AN AGREEMENT OF "CERTAINTY AND FIRMNESS" WITH THE TUC WHEN THE CURRENT PAY ROUND EXPIRES JULY 31, BUT HE ACCEPTED THE FACT THAT AN AGREEMENT WOULD HAVE TO WAIT THE CONCLUSION OF THE ROUND OF TRADE UNION ANNUAL CONFERENCES IN JULY. HE ACCEPTED, ALSO, THE NEED FOR A MORE FLEXIBLE PAY POLICY THIS TIME THAN WAS THE CASE FOR THE LAST TWO ROUNDS AND SUGGESTED A POSSIBLE "KITTY BARGAINING" POLICY (IN WHICH EMPLOYERS WOULD BE TOLD THE GENERAL PERCENTAGE LEVEL BY WHICH THE TOTAL WAGE BILL COULD INCREASE IN THE COMING YEAR, AND IT WOULD BE FOR MANAGE-LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 LONDON 06688 01 OF 02 251701Z

MENT AND UNIONS IN EACH BARGAINING UNIT TO DETERMINE HOW THE AVAILABLE AMOUNT SHOULD BE APPORTIONED). MR. CALLAGHAN ALSO FAVORED A FLEXIBLE PAY POLICY WHICH WOULD ALLOW UNIONS "TO RESUME THEIR NORMAL FUNCTIONS OF MAKING THE ADJUSTMENT THAT WILL BE REQUIRED IF WE ARE TO LOOSEN THE TIGHT CORSET OF THE LAST TWO YEARS ON SUCH MATTERS AS DIFFERENTIAL PAYMENTS OR BONUSES IN PARTICULAR CIRCUMSTANCES." (THE WELSH TUC, A MORE MODERATE BODY THAN ITS SCOTTISH COUNTERPART, DEFEATED A RESOLUTION FAVORING THE RETURN TO UNFETTERED FREE COLLECTIVE BARGAINING.)

2. THE CHANCELLOR OF THE EXCHEQUER, IN A SPEECH ON SUNDAY (APRIL 24) TO THE UNION OF SHOP DISTRIBUTIVE AND ALLIED WORKERS (USDAW) SAID THAT THE OBJECTIVE IN THE TUC-GOVERNMENT NEGOTIATIONS IS TO KEEP AVERAGE EARNINGS INCREASES BELOW TEN PERCENT IN THE NEXT YEAR, IN ORDER TO BRING PRICE INCREASES DOWN TO SINGLE FIGURES. GIVEN EXPERIENCE WITH PHASE II, THIS WOULD

INDICATE A PAY NORM TARGET OF ABOUT THE SAME SIZE AS
THIS YEAR - 4 1/2 PERCENT WITH THE DIFFERENCE BEING
ACCOUNTED FOR BY OVERTIME AND OTHER FACTORS. (HEALEY
IS REPORTEDLY ANNOYED AT THE FOREIGN SECRETARY DAVID
OWEN FOR SPECIFICALLY INDICATING OVER THE WEEKEND THAT
THE GOVERNMENT SOUGHT A NINE PERCENT LIMIT.) MR.
HEALEY UNDERSCORED THE NEED NOT ONLY FOR A THIRD WAGE
ROUND "IN ORDER TO MAKE SURE WE DO NOT THROW AWAY

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 LONDON 06688 02 OF 02 251714Z
ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 SP-02 USIA-06 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 L-03
H-01 PA-01 PRS-01 CIAE-00 COME-00 FRB-03 INR-07
NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 DODE-00
PM-04 /103 W

-----251737Z 110917 /53

R 251736Z APR 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 3025
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY THE HAGUE
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
USMISSION EC BRUSSELS
USMISSION NATO BRUSSELS
USMISSION OECD PARIS
USNMR SHAPE
USMISSION GENEVA
AMCONSUL BELFAST
AMCONSUL EDINBURGH

LIMITED OFFICIAL USE SECTION 02 OF 02 LONDON 06688

AGAIN THE FRUITS OF OUR SACRIFICE" BUT ALSO THE VITAL IMPORTANCE OF KEEPING TO THE SECOND STAGE UNTIL IT EXPIRES JULY 31 IN ORDER TO AVOID A WAGES EXPLOSION. HE REITERATED THE NEED FOR A FIRM, FIXED AGREEMENT, RECALLING THAT WHEN THE GOVERNMENT TEN YEARS AGO LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LONDON 06688 02 OF 02 251714Z

LIMITED ITSELF TO "A SOLEMN AND BINDING DECLARATION" FROM THE UNIONS "IT MELTED AWAY LIKE BUTTER IN THE SUN." HEALEY REITERATED MR. CALLAGHAN'S IDEAS ABOUT FLEXIBILITY IN THE THIRD ROUND, SUPPORTED "KITTY BARGAINING" AS A CONCEPT THE UNIONS COULD DECIDE FOR THEMSELVES, INSISTED THAT THE 12 MONTHS INTERVAL BETWEEN SETTLEMENTS MUST BE MAINTAINED.

3. WHEN LEN MURRAY, TUC GENERAL SECRETARY, WAS INTERVIEWED SUNDAY (APRIL 24) ON BRITISH TV, HE APPEARED TO TAKE A MUCH LOOSER LINE THAN THE TWO TOP GOVERNMENT LEADERS ON THE NATURE OF THE NEXT AGREEMENT. HE EMPHASIZED THAT THE OLD DEFINITIONS AND DESCRIPTIONS WERE NO LONGER USEFUL. AS HE PUT IT: "A FORMULA, PHASE THREE, PAY RESTRAINT -- ALL THESE ARE CONCEPTS WHICH ARE FRANKLY EVAPORATING." IN THIS, HE APPEARS TO BE FOLLOWING RECENT STATEMENTS BY ANOTHER LEADER, JACK JONES, WHO SUGGESTED THAT IF CERTAIN ECONOMIC AND SOCIAL DECISIONS (PRICES, PENSIONS, ETC.) WERE UNDERTAKEN BY THE GOVERNMENT, THE UNIONS WOULD AGREE TO DISCIPLINING THEIR WAGE DEMANDS. ON THE OTHER HAND, MURRAY THREW UP HIS HANDS IN FIGURATIVE HORROR AT THE PROSPECT OF A RETURN TO PRE-1975 WAGES EXPLOSION. HE SAID THAT IF THIS WERE TO OCCUR THE POUND WOULD PLUMMET ("GO FOR A BURTON", AS THE BRITISH SAY). MURRAY, IN GENERAL, WAS LOATH TO GO INTO THE NITTY-GRITTY OF ANY POSSIBLE WAGES POLICY, SAYING "THERE'S PLENTY OF TIME" TO WORK OUT AN ARRANGEMENT.

4. COMMENT: THUS, THE SPARRING CONTINUES EVEN THOUGH THE ACTION IS BECOMING MORE SERIOUS. IT IS DIFFICULT TO SEE HOW THE GOVERNMENT'S TARGET SUGGESTED BY THE LESS THAN TEN PERCENT AVERAGE EARNINGS FIGURE INDICATED IN HEALEY'S ADDRESS TO THE SHOPWORKERS CAN BE ACHIEVED IN POLITICAL TERMS. MR. HEALEY HAS SEVERAL BARGAINING CHIPS TO USE INCLUDING THE CONDITIONAL TAX LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 LONDON 06688 02 OF 02 251714Z

CUT FROM THE MARCH 29 BUDGET. HE HAS ALSO HINTED AT

FURTHER TAX RELIEF THIS AUTUMN AND COULD PROBABLY COME UP WITH FUTURE LIMITED JOB TRAINING, CREATION OR PRESERVING SCHEMES. NEVERTHELESS, HIS MARGIN FOR MANEUVER IS LIMITED BY THE PUBLIC SECTOR BORROWING REQUIREMENT AND DOMESTIC CREDIT EXPANSION TARGETS CONTAINED IN HIS LETTER OF INTENT SENT TO THE IMF IN DECEMBER. FOR ITS PART, THE GOVERNMENT IS CLEARLY JUSTIFIED IN SEEKING A CLEAR-CUT AGREEMENT FROM THE TRADE UNIONS. MR. HEALEY NEED NOT DELVE TEN YEARS BACK TO DISCOVER THE FAILURE OF SIMOLE VERBAL UNDERSTANDINGS BETWEEN THE TRADE UNIONS AND THE GOVERNMENT. A SIMILAR VERBAL UNDERSTANDING BETWEEN THE GOVERNMENT AND THE TUC TO KEEP WAGE DEMANDS WITHIN LIMITS AFTER LABOR RETURNED TO POWER WAS FOLLOWED BY A WAGES EXPLOSION WHICH LED TO INFLATION RATES OF ABOUT THIRTY PERCENT. THE GOVERNMENT DOES NOT WANT TO REPEAT THAT SITUATION AND IN THE END WILL ACCEPT A "CREDIBLE" BUT CLEAR-CUT AGREEMENT.

5. HOWEVER, HMG IS OPERATING WITHIN SEVERE LIMITS. PRELIMINARY DATA ON CONSUMER EXPENDITURE AND NET EXPORTS INDICATE THAT THE ECONOMY MAY HAVE EXPERIENCED A DECLINE IN REAL GROWTH DURING THE FIRST QUARTER OF 1977. DESPITE THIS, RETAIL PRICE INFLATION, REFLECTING PAST DECLINES IN STERLING, CONTINUES TO WORSEN, INTENSIFYING THE SQUEEZE ON AVERAGE EARNINGS. AGAINST THIS BACKGROUND, THE CHANCELLOR'S CONCERN WITH HOLDING THE GAINS OF THE LAST TWO YEARS OF PAY RESTRAINT AND OBTAINING ANOTHER FORMAL AGREEMENT ON WAGE LIMITS IS UNDERSTANDABLE. YET, IN CREATING A NATIONAL CONSENSUS IN FAVOR OF A FURTHER YEAR OF INCOMES POLICY, MR. HEALEY MUST ALSO MOVE TOWARD RESTORING ERODED WAGE DIFFERENTIALS, CUSHIONING LOWER PAID WORKERS, AND REDUCING THE ANOMALIES OF THE PREVIOUS TWO PAY AGREEMENTS. WITH THE WIDE RANGE OF INTERESTS REPRESENTED BY IN-

LIMITED OFFICIAL USE

PAGE 04 LONDON 06688 02 OF 02 251714Z

DIVIDUAL TRADE UNIONS, THIS WILL PROVE TO BE A MONUMENTAL TASK. MAKING THE CHANCELLOR'S TASK EVEN HARDER ARE EMPLOYERS WHOSE PROBLEMS WITH OBTAINING SKILLED LABOR ARE COMPLICATED BY THEIR INABILITY TO PAY MARKET-RELATED WAGES.

SPIERS

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: UNION GOVERNMENT RELATIONS, COLLECTIVE BARGAINING
Control Number: n/a
Copy: SINGLE
Sent Date: 25-Apr-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977LONDON06688
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770143-1119
Format: TEL
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770423/aaaaatry.tel
Line Count: 272
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 0439969f-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 LONDON 6466
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 01-Dec-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2706889
Secure: OPEN
Status: NATIVE
Subject: CALLAGHAN AND HEALEY INTO THE BREACH
TAGS: ELAB, PINT, PGOV, UK
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/0439969f-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009